

ANNUAL FINANCIAL REPORT OF CALIFORNIA K-12 SCHOOLS

Report to the Superintendent of Public Instruction

For the Period of July 1, 2006, through June 30, 2007



JOHN CHIANG
California State Controller

July 2008



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California State Controller

July 8, 2008

The Honorable Jack O'Connell
State Superintendent of Public Instruction
California Department of Education
P.O. Box 944272
Sacramento, CA 94244-2720

Dear Superintendent O'Connell:

I am pleased to announce the completion of the Annual Financial Report of California K-12 Schools for 2007. The report summarizes the financial and program compliance status of the State's school districts, county offices of education, and charter schools for Fiscal Year (FY) 2006-07, unless otherwise specified. For the FY 2006-07, there were a total of 1,379 local education agencies (LEAs). This 1,379 comprises 977 school districts, 58 county offices of education, and 344 charter schools.

The financial health of most of California's 977 school districts and 58 county offices of education improved during FY 2006-07. As a whole, California's local educational agencies received more money than they spent, an improvement over last fiscal year by \$1.73 billion. The number of LEAs engaged in multi-year deficit spending decreased from 102 to 23. However, the number of districts and county offices of education filing negative or qualified second-interim certifications for FY 2007-08 increased significantly from 26 to 130 (400%), primarily due to deficit spending, salary and benefit issues, declining enrollment, mid-year budget adjustments, and inadequate reserves. This is a substantial increase from the prior year in districts and county offices of education reporting possible fiscal problems.

Of California's 344 charter schools, 52 (15.1%) currently show signs of possible financial instability. Of these 52 charter schools, 39 reported deficit fund balances for FY 2006-07, and the remaining 13 had fund balance reserves of less than 1% of general fund expenditures.

State and federal compliance findings noted in the independent auditors' reports of school districts and county offices of education increased from the prior year. Auditors reported 1,052 compliance findings in FY 2006-07, a 4.4% increase from the 1,008 reported

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in FY 2005-06. Moreover, 27.8% of the compliance findings were related to deficiencies in average daily attendance (ADA) accounting, which is the primary basis for the allocation of state funding. The independent audit reports also noted that 98 of the 1,159 local educational agencies (8.5%) participating in the Class-Size Reduction Program failed to fully comply with program reporting requirements that may result in repayment of state funds. The auditors also reported 106 findings pertaining to the Instructional Materials Fund.

I hope the report will be useful to you and the Legislature in planning California's future education needs. Please direct any comments regarding the content of the report to Michael Carter, Chief Operating Officer, at (916) 445-3028.

Sincerely,

Original signed by

JOHN CHIANG
California State Controller

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Executive Summary

The State Controller has broad authority to oversee state and federal funding of California's public schools from kindergarten through the 12th grade (K-12). The State Controller's goal is to promote greater fiscal accountability by local education agencies (school districts, county offices of education, and charter schools) and to function as the independent protector of taxpayer dollars.

This oversight responsibility includes reviewing annual local education agencies' audit reports, maintaining a database with financial and statistical data on local education agencies' audit reports, reviewing and certifying the audit reports submitted by independent auditors, tracking financially troubled school districts identified by the interim reporting process, developing and submitting the content of the Standards and Procedures for Audits of California K-12 Local Educational Agencies to the Education Audit Appeals Panel, and conducting financial and program audits at various local education agencies.

Most of the information used to prepare this report is compiled from annual audit reports prepared for individual local education agencies (LEAs) by independent certified public accountants for fiscal year 2006-07. Additional data was taken from interim financial report certifications submitted by LEAs during fiscal year 2007-08. Information related to the emergency loan apportionments was obtained from various sources, including the California Infrastructure and Economic Development Bank.

This year's report contains the following key findings:

- Fifty-two (52) charter schools had deficient fund balances. Of these, 39 had deficit fund balances and the remaining 13 had fund balance reserves of less than 1% of the general fund expenditures.
- The number of LEAs engaged in multi-year deficit spending decreased from 102 to 23. Although some LEAs legitimately may need to engage in multi-year deficit spending (such as for building projects), this practice often is an indication that a district is facing financial difficulties.
- Long-term borrowing increased by \$769 million to a total of \$9.036 billion, a 9.3% increase from the \$8.267 billion reported in the prior year. Generally, LEAs issue long-term debt to fund capital improvements, refinance existing debt, or buy land for future use.
- The number of districts and county offices of education filing negative or qualified certifications during at least one of the two reporting periods increased substantially (400%), from 26 in fiscal year 2006-07 to 130 in fiscal year 2007-08. In the second reporting period of fiscal year 2007-08, 106 school districts and 2 county offices of education filed qualified interim financial reports and 13

school districts filed negative interim financial reports. Continuing financial difficulties may have a negative impact on these LEAs' educational programs.

- The number of state and federal compliance findings contained in the audit reports of LEAs increased over the prior year. Approximately 27.8% of the compliance findings for fiscal year 2006-07 are related to deficiencies in average daily attendance (ADA) accounting, which is the primary factor in determining the amount of funding an LEA receives from the State.
- The number of rejected reports increased by 86 over the prior year, from 358 to 444. Approximately 253 of the 444 reports, or 57%, rejected were charter school reports.
- The LEAs' annual audit reports disclosed that 98 of the 887 elementary school districts, and 282 charter schools participating in the Class-Size Reduction Program, failed to fully comply with the program requirements. The reports also disclosed 106 audit findings pertaining to the Instructional Materials Program.

Overall, the financial health of most of California's 977 school districts and 58 county offices of education improved during FY 2006-07. However, the significant increase in the number of districts and county offices of education filing negative or qualified second-interim certifications for FY 2007-08 indicates possible future financial difficulties.

Introduction

The State Controller's Office's (SCO) oversight role in the K-12 fiscal process is administered by its Division of Audits. Oversight activities focus primarily on three areas: financial indicators, program compliance, and quality control.

The SCO is also responsible for financial oversight of local education agencies (school districts, charter schools, and county offices of education). Beginning with fiscal year 2005-06, Education Code section 47634.2(d) rendered charter schools subject to audits pursuant to Education Code section 41020. That Education Code section requires that audits be conducted in accordance with California Code of Regulations, Title 5, Education, section 19810, et seq. (the audit guide is also known as the Standards and Procedures for Audits of California K-12 Local Educational Agencies 2006-07).

Each section of the report specifies the type of local education agency being reported on and the fiscal year for which the data was obtained.

In accordance with Education Code section 14500, the SCO's responsibilities include:

- Developing, in consultation with the Department of Finance, the State Department of Education, and other school representatives, an annual audit guide¹ that prescribes financial statements and other information that should be included in each local education agency's audit report and that provides guidance to independent auditors conducting school district audits;
- Reviewing each local education agency's audit report submitted to the State and performing the associated follow-up actions, including compliance audits;²
- Tracking notifications from the school districts that identify substantial fiscal problems at interim reporting periods;

¹ Standards and Procedures for Audits of California K-12 Local Educational Agencies (K-12 Audit Guide). The Education Code states that the Controller, in consultation with the California Department of Education, the California Department of Finance, representatives of the California School Boards Association, the California Association of School Business Officials, the California County Superintendents Educational Service Association, the California Teachers Association, and the California Society of Certified Public Accountants, shall recommend the statements and other information to be included in the audit reports filed with the State and shall propose an audit guide to carry out the purposes of this chapter. A supplement to the audit guide may be suggested during the audit year, to address issues resulting from new legislation in that year that changes the conditions of apportionment. The proposed content of the audit guide and any supplement to the audit guide shall be submitted by the Controller to the Education Audit Appeals Panel for review and possible amendment.

² Compliance audits are conducted to determine whether categorical state and federal program funds are expended in accordance with the applicable program laws and regulations.

- Conducting selected school districts' annual financial and compliance audits as a condition of the districts receiving emergency State apportionment loans;
- Ensuring that satisfactory arrangements for an annual audit have been made for each local education agency;
- Performing quality control reviews of independent auditors; and
- Compiling pertinent data and reporting annually to the California State Legislature and the California Department of Education.

Financial Indicators

Overview

The Education Code places school district finances under the control of county offices of education and the California Department of Education. The law protects the public's interest in education by giving county offices of education specific responsibility for fiscal oversight of districts within their jurisdictions.

Key financial indicators representing the financial health of local education agencies are presented in this section of the report. Most of the indicators are based on data from annual audit reports prepared by independent certified public accountants (CPAs) for fiscal year 2006-07. State law requires local education agencies to submit, approximately six months after the end of a fiscal year, an independent audit report to the State Controller's Office and the California Department of Education. Additional data comes from interim financial report certifications submitted by school districts during fiscal year 2007-08 and from audits conducted by the State Controller's Office.

Interim Reporting

School districts in California are required to file interim reports certifying their financial health to the governing board of the district and to the county office of education. These interim reports must be completed twice a year by every school district (to cover the periods of July 1 through October 31, and November 1 through January 31) and must be reviewed by the appropriate county superintendent of schools. The interim reports must be in a format or on forms prescribed by the State Superintendent of Public Instruction and shall be based on Standards and Criteria for Fiscal Stability adopted by the State Board of Education pursuant to Education Code section 33127. Charter schools are not required to file interim reports.

One of the following three certifications must be designated by the school district or county office of education when certifying the district's fiscal stability on the interim report.

Positive: A school district or county office of education that **will** meet its financial obligations for the **current fiscal year and subsequent two fiscal years**.

Qualified: A school district or county office of education that **may not** meet its financial obligations for the **current fiscal year or subsequent two fiscal years**.

Negative: A school district or county office of education that **will not be able to** meet its financial obligations for the **current fiscal year or subsequent fiscal year**.

School districts that file qualified or negative interim reports work with their county school superintendent to implement corrective action. Copies of the qualified or negative certifications are forwarded to the State Controller's Office and the Superintendent of Public Instruction.

Substantial increase in the number of districts that filed qualified or negative certifications

During fiscal year 2007-08, 28 of the 977 school districts and 58 county offices of education in the state filed a qualified certification, and 7 districts filed a negative certification for the first-period interim report. Of these 35 LEAs, 17 filed a second-period qualified interim report, 9 filed a second-period negative report, and 9 districts were able to take corrective action. However, an additional 95 LEAs (94 districts and 1 county office of education) filed qualified or negative second-period interim reports, for a total of 121 LEAs filing qualified or negative certifications for the second-period interim report (Figure 1). Thus, 130 LEAs (128 districts and 2 county offices of education) reported qualified or negative certifications for at least one of the two periods (Appendix A), and 14 LEAs (13 districts and 1 county office of education) remained on the list from the prior year. LEAs filing qualified or negative interim reports for two or more years are monitored closely by the SCO through continuous contact with the California Department of Education.

The most common causes of fiscal problems cited in qualified or negative certifications were (Appendix B):

- Deficit spending—121 LEAs (93.1%)
- Salary and benefit issues—71 LEAs (54.6%)
- Declining enrollment—87 LEAs (66.9%)
- Mid-year budget adjustments—86 LEAs (66.2%)
- Inadequate reserves—116 LEAs (89.2%)

An analysis of the 95 LEAs that changed from a positive first interim certification to a negative or qualified second-period interim certification revealed the same top five common causes above.

Figure 1

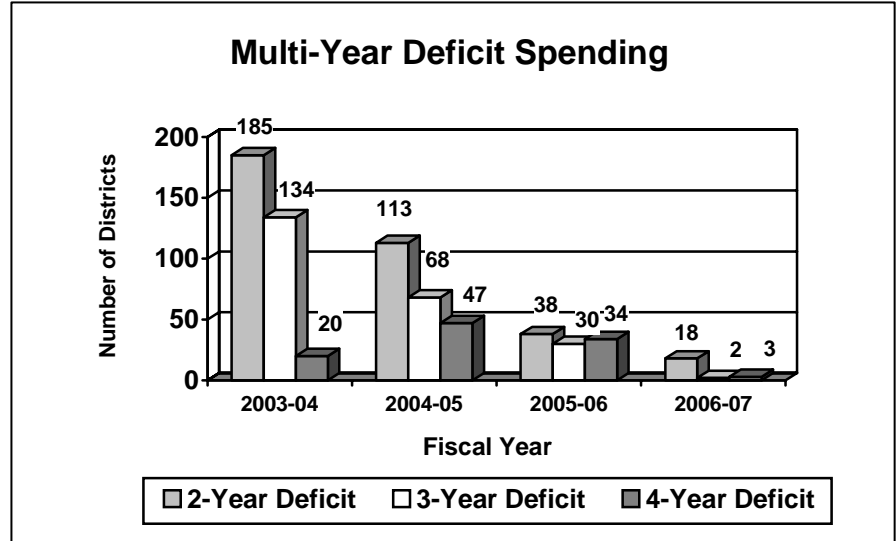
SECOND-PERIOD INTERIM REPORTING HISTORY					
	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>	<u>2007-08*</u>
Positive	996	979	1,003	1,010	914
Qualified	35	47	29	19	108
Negative	<u>9</u>	<u>14</u>	<u>4</u>	<u>5</u>	<u>13</u>
Totals	<u>1,040</u>	<u>1,040</u>	<u>1,036</u>	<u>1,034</u>	<u>1,035</u>
* Additional information regarding local education agencies that filed qualified or negative interim reports during fiscal year 2007-08 is provided in Appendices A and B.					

Deficit Spending

LEA multi-year deficit spending decreases

During fiscal year 2006-07, single-year deficit spending decreased to 59 LEAs from 158 LEAs in the prior fiscal year.

The overall number of LEAs relying on multi-year deficit spending decreased (Figure 2). Deficit spending patterns are monitored closely by the county offices of education and the California Department of Education to determine whether the districts are facing serious financial problems.

Figure 2

Emergency Apportionments

When the governing board of a school district determines that the district's revenues are not sufficient to meet its current-year obligations, it may request, through legislation, an emergency apportionment loan. As a condition of acceptance of the loan, the superintendent appoints an administrator or trustee to control, monitor, and review the operation of the district. The administrator or trustee helps the district develop a five-year recovery plan.

School districts making timely payments

During the past 26 years, the State has granted more than \$224 million in emergency loans to school districts from the general fund. The emergency loans are designed to provide an advance of apportionments owed to the districts from the State School Fund.

Figure 3

DISTRICTS WITH OUTSTANDING LOANS (in millions)							
Fiscal Year	School District	Initial Loan			Lease Revenue Bonds ¹		
		Amount of Loan	Out-standing Balance	Final Repay-ment Date	Amount Issued	Out-standing Balance	Final Repay-ment Date
1990-91	West Contra Costa Unified	\$28.5	—	12/08/2005	\$15.7	\$14.7	08/15/2018
2001-02	Emery Unified	\$2.3	\$1.0	09/30/2021	—	—	—
2002-03	West Fresno Elementary	\$2.0	\$0.8	12/30/2013	—	—	—
2002-03	Oakland Unified	\$100.0	\$33.5	06/05/2026	\$59.6 ²	\$59.6	08/15/2023
2003-04	Vallejo City Unified	\$60.0	\$33.6	06/24/2024	\$21.2	\$20.4	08/15/2024

¹ The lease revenue bond information was obtained from the California Infrastructure and Economic Development Bank.

² Series 2008 Bonds were issued on April 2008.

During fiscal year 2007-08, four districts had general fund loan balances in amounts ranging from \$0.8 million to \$33.6 million. Assembly Bill (AB) 1554 was enacted during fiscal year 2003-04 to authorize West Contra Costa Unified School District and Oakland Unified School District to use lease financing to repay the emergency apportionments made from the State's general fund. AB 1554 also specifies that the

emergency loan made to the Vallejo City Unified School District should be considered an interim loan and requires that the interim loan be repaid with the proceeds of lease financing.

The lease financing specified in AB 1554 is made available by the California Infrastructure and Economic Development Bank (I-Bank) and the term shall not exceed 20 years. I-Bank issues the bonds to finance the emergency apportionments and related costs. In December 2005, I-Bank issued bonds to reduce or eliminate the initial loans, as identified in Figure 3.

Lease financing payments for Vallejo Unified School District, West Contra Costa Unified School District, and Oakland Unified School District are due monthly over a seven-month period, from July through January of each fiscal year. The principal payments for these three districts are due annually on August 15.

Annual payments on the initial emergency loans for the Oakland Unified School District, Emery Unified School District, and West Fresno Elementary School District are due in June, September, and December, respectively. Vallejo City Unified School District annual payments are due in June.

General Fund Revenues and Expenditures

For fiscal year 2006-07, school district general fund revenues exceeded expenditures by \$2.625 billion (Figure 4).

Figure 4

SCHOOL DISTRICT GENERAL FUND REVENUES AND EXPENDITURES (in billions)									
	Fiscal Years								
	<u>1998-99</u>	<u>1999-2000</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>
Revenues	\$35.715	\$38.793	\$44.262	\$45.323	\$44.939	\$46.159	\$49.643	\$51.964	\$51.379
Expenditures	<u>(34.675)</u>	<u>(37.690)</u>	<u>(42.804)</u>	<u>(44.342)</u>	<u>(44.774)</u>	<u>(46.372)</u>	<u>(48.702)</u>	<u>(50.724)</u>	<u>(48.754)</u>
Surplus/(Deficit)	<u>\$ 1.040</u>	<u>\$ 1.103</u>	<u>\$ 1.458</u>	<u>\$.981</u>	<u>\$.165</u>	<u>\$ (.213)</u>	<u>\$.941</u>	<u>\$ 1.240</u>	<u>\$ 2.625</u>

The cumulative fund balance or surplus for LEAs totaled \$7.669 billion at the end of fiscal year 2006-07, an increase of \$1.73 billion from the prior year's total of \$5.939 billion. As part of the total fund balance, the LEAs are to maintain reserves as a defense against economic uncertainties. The California Department of Education issues guidelines regarding the amount of reserve each district should maintain, based on its total average daily attendance.

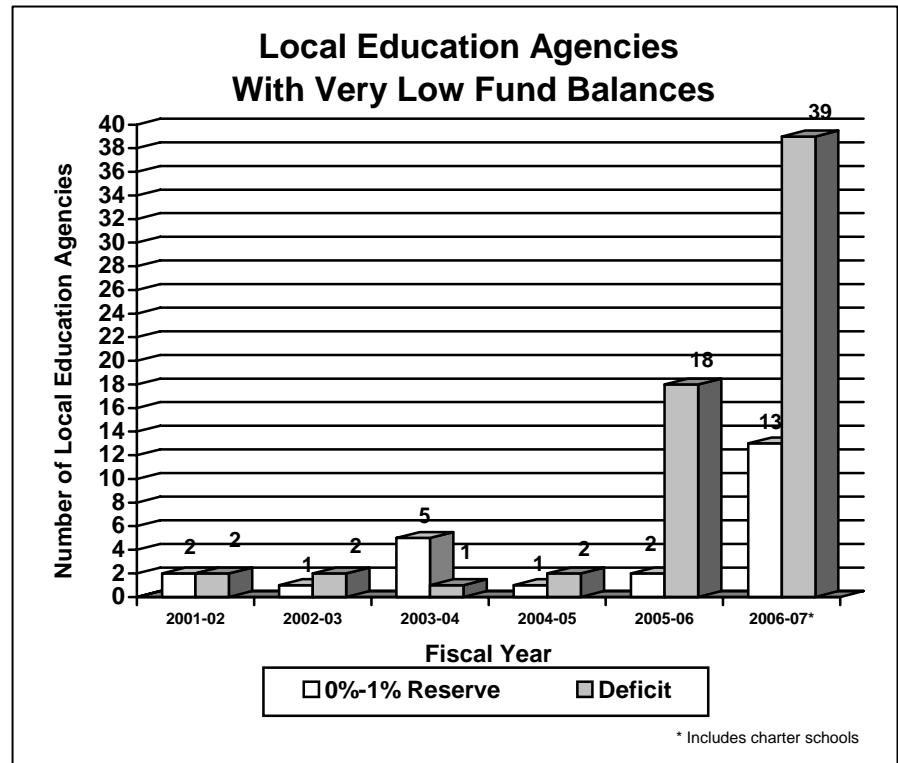
General Fund Balances

In their interim reports, school districts report to county offices of education on projected general fund balances and reserve levels for the current period and two subsequent years. The primary purpose of this reporting is to identify potential deficit spending early in the process, so that the trend can be reversed.

***Number of LEAs with
deficient fund balances
increased***

The number of LEAs with low or deficit fund balances increased from 20 in the prior year to 52 (160%). There also was an 117% increase in LEAs with deficit fund balances (39 in fiscal year 2006-07 compared with 18 in fiscal year 2005-06). The data also revealed that all 52 LEAs that had low or deficit fund balances at the end of fiscal year 2006-07 were charter schools (see Figure 5).

Figure 5



Long-Term Borrowing

***LEAs' issuance of
long-term financing
increased***

Generally, long-term debt is issued by LEAs to: fund the purchase, construction, or lease of buildings and equipment; refinance existing debt; or, buy land for future use. In the past, it was not uncommon for financially troubled districts to issue long-term debt in order to finance current operations.

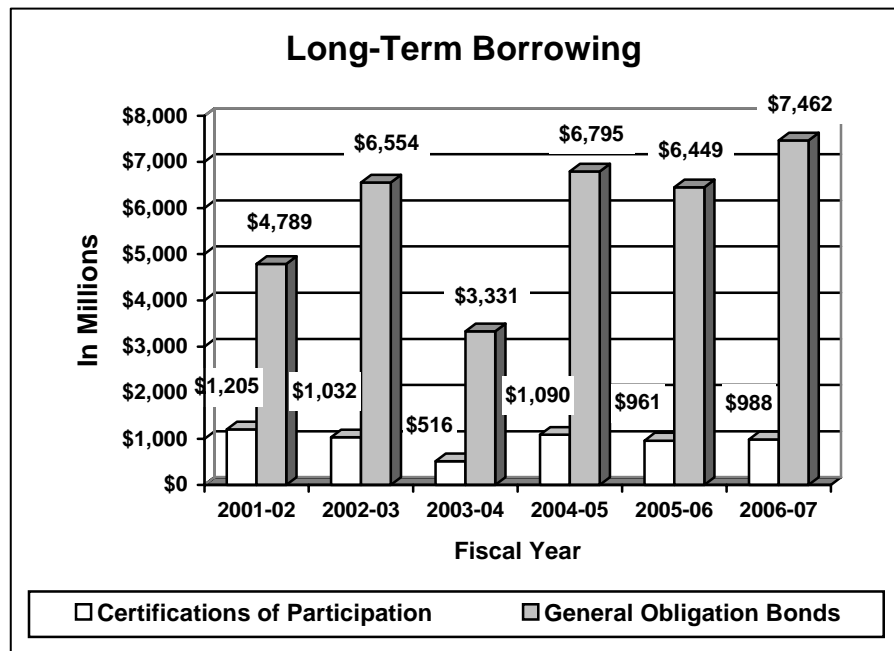
During fiscal year 2006-07, LEAs issued \$9.036 billion in long-term debt, an increase of \$769 million over the prior year (9.3%). In fiscal year 2006-07, the total number of LEAs that issued debt decreased by 1.85% over the prior fiscal year, while the total amount of debt issued increased by 9.30% over the prior fiscal year. Based on information available, this increase is due to LEAs issuing long-term debt in greater amounts in fiscal year 2006-07 than in fiscal year 2005-06. Long-term debt financing included:

- **Certificates of Participation (\$988 million, or 10.93%)**—A financing technique that provides long-term financing through leasing of school facilities, such as buildings, with either an option to purchase or a conditional sales agreement.

- **General Obligation Bonds (\$7.462 billion, or 82.58%)**—Bonds secured by the full faith and credit of the district. These long-term obligations are generally issued at more favorable rates than are other types of debt because of their preferred status; that is, they are secured by the taxing authority of the district.
- **Limited Tax Obligation Bond Instruments and Other Debt (\$586 million, or 6.49%)**—A financing technique that provides long-term financing of capital projects. The bonds are repaid from incremental taxes on property in a redevelopment area.

LEAs issued \$8.450 billion in certificates of participation and general obligation bonds during fiscal year 2006-07, an increase of \$1.040 billion (14.03%) from the \$7.410 billion in the prior year (Figure 6).

Figure 6



Financing through certificates of participation increased by \$27 million and financing through general obligation bonds increased by \$1.013 billion over the prior year. The certificates of participation were issued by 66 LEAs during fiscal year 2006-07.

Certificates of participation accounted for 10.93% of long-term borrowing in fiscal year 2006-07, a 2.81% increase from the previous year. In comparison, general obligation bonds accounted for 82.58% of long-term borrowing in fiscal year 2006-07, an increase of 15.71% from the previous year.

Lottery Revenues

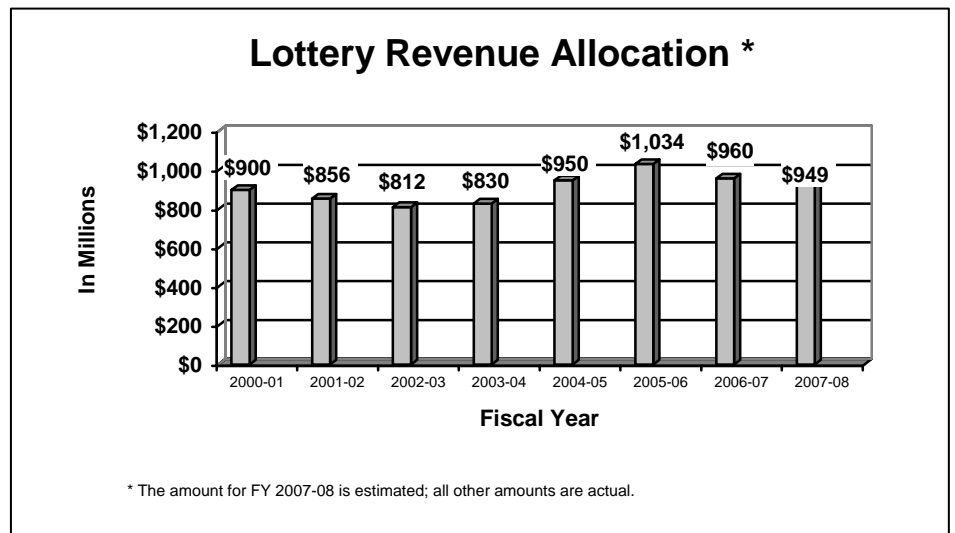
The allocation of lottery revenues to K-12 school districts is based on a percentage of total lottery sales for the year. Under state law, a minimum of 34% of lottery sales must be distributed to school districts, community colleges, and other educational agencies. The division of this 34% between K-12 school districts and junior colleges fluctuates annually.

Lottery revenues projected to decrease

The amount is distributed to each district based on its K-12 average daily attendance. The data regarding sales and allocations are maintained by the State Controller's Office and the California State Lottery.

Revenue for fiscal year 2007-08 is projected to decrease by 1.17% as compared with fiscal year 2006-07, down to \$949 million³—approximately \$143 per K-12 average daily attendance (Figure 7).

Figure 7



³ The lottery revenue information is obtained from the California Department of Education, based on State Lottery projections.

Program Compliance

Overview

The State Controller's Office reports on program compliance issues as part of its review of annual audit reports, the overall certification process, and associated follow-up actions. In addition, the State Controller's Office conducts compliance audits.

Compliance Findings

Independent auditors determine whether the local education agencies, including joint powers entities, have complied with state and federal laws and regulations that may have a material effect on the financial position and operations of the organization or program(s) under audit. The joint powers entities are formed to provide a joint service to a group of districts; the entities are governed by a board consisting of a representative from each member district. When a local education agency is not in compliance with applicable laws and regulations, the findings are communicated by the independent auditors in the audit report.

The number of compliance findings contained in the fiscal year 2006-07 LEA financial reports submitted by Certified Public Accountants (CPAs) increased over the prior year. There were 1,052 compliance findings in fiscal year 2006-07, a 4.4% increase over the 1,008 reported in fiscal year 2005-06 (see Appendix C). The number of attendance accounting findings decreased by 22 (from 314 to 292, or 7%) from the prior year.

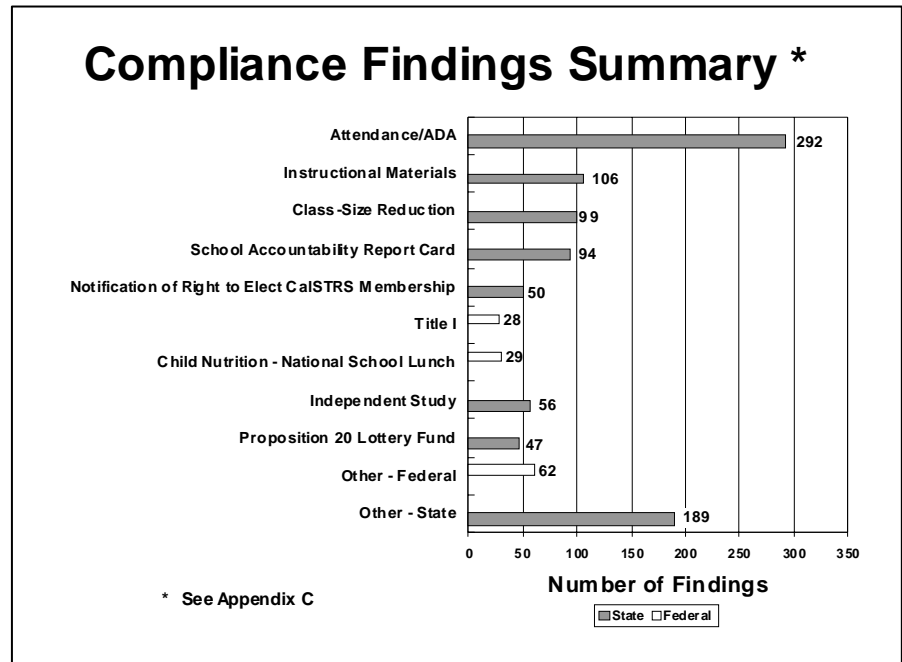
Some of the problems identified in the compliance findings may have a fiscal impact on district operations, as they may result in a loss of state and federal funding. Of the 1,052 audit findings, 933 (88.7%) pertained to state programs and requirements and 119 (11.3%) pertained to federal programs and requirements (see Figure 8). Attendance-related findings accounted for 27.8% of compliance findings. The majority of the attendance findings, accounting for approximately 72.6% of all attendance findings, were related to:

- Overstatement of ADA;
- Kindergarten continuation forms not being maintained and/or not in compliance with state requirements;
- Attendance reports being inaccurate or incomplete;
- Understatement of ADA;
- Absences claimed for apportionment; and
- Teachers not authorized to instruct limited-English proficient pupils.

The fiscal year 2006-07 LEA audit reports also found that 8.5% (98 of 1,159) of the 877 elementary school districts and 282 charter schools participating in the Class-Size Reduction Program did not fully comply with program reporting requirements. The audits identified 99 findings relating to the Class-Size Reduction Program.

The audits also disclosed 106 findings pertaining to the Instructional Materials Program. The types of findings ranged from LEAs not holding public hearings to board resolution deficiencies.

Figure 8



Reporting of Findings

Annual audit reports by CPAs are the primary source of information regarding a local education agency's financial stability and its compliance with state and federal program requirements. Local education agencies' noncompliance with program laws and regulations were not always included in the audit reports. Some compliance problems were either reported to the local education agency in the independent auditor's management letter or went undetected by the independent auditor.

Audit Resolution Process

Education Code section 41020(n) requires the State Controller to annually select a sample of county offices of education for which to perform a follow-up review of the audit resolution process. The scope of the reviews was limited to determining whether each county office of education followed its audit resolution process, resolved all of the audit findings, followed up on the district's corrective action plans, and notified the Superintendent of Public Instruction and SCO of its results.

In fiscal year 2007-08, the SCO performed reviews of the audit resolution processes of three county offices of education.

Our reviews disclosed that the three county offices of education followed their audit resolution processes for fiscal years 2003-04 and 2004-05, except for one county office of education's late submission of the fiscal year 2004-05 certification of corrective action to the State.

Quality Control

Overview

The State Controller, under Education Code section 14504, reviews and certifies the annual independent audit reports submitted by each local education agency (school district, county office of education, and charter school) for compliance with audit guidelines set out in the Standards and Procedures for Audits of California K-12 Local Educational Agencies (K-12 Audit Guide).

Audit Report Certifications

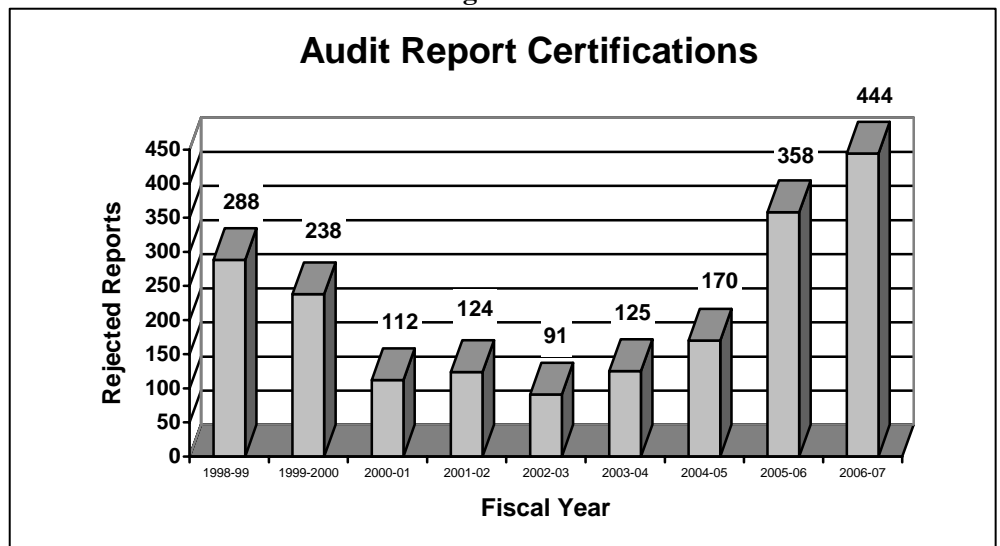
The SCO determines whether audit reports conform to reporting provisions of the K-12 Audit Guide and notifies each local education agency, independent auditor, and the State Superintendent of Public Instruction as to whether its report has been accepted or rejected, based on its conformity with those provisions.

For fiscal year 2006-07, the SCO accepted 67% of the audit reports; the remaining 33% were rejected upon initial review. The SCO subsequently accepted the rejected audit reports after the independent auditors made the requested corrections. Rejection of an auditor's report is accompanied by a penalty whereby the independent auditor does not receive its 10% service fee; this fee is retained by the local education agency until the audit report has been corrected and certified by the SCO. In addition, if an independent auditor has had a report rejected (and has not subsequently corrected it) for the same local education agency for two consecutive years, the auditor may be referred to the State Board of Accountancy for professional review.

Increase in rejected audit reports

The number of rejected reports increased by 86 over the prior year, from 358 to 444, a 24% increase (Figure 9). Of the 444 reports rejected, 253 were charter school reports.

Figure 9

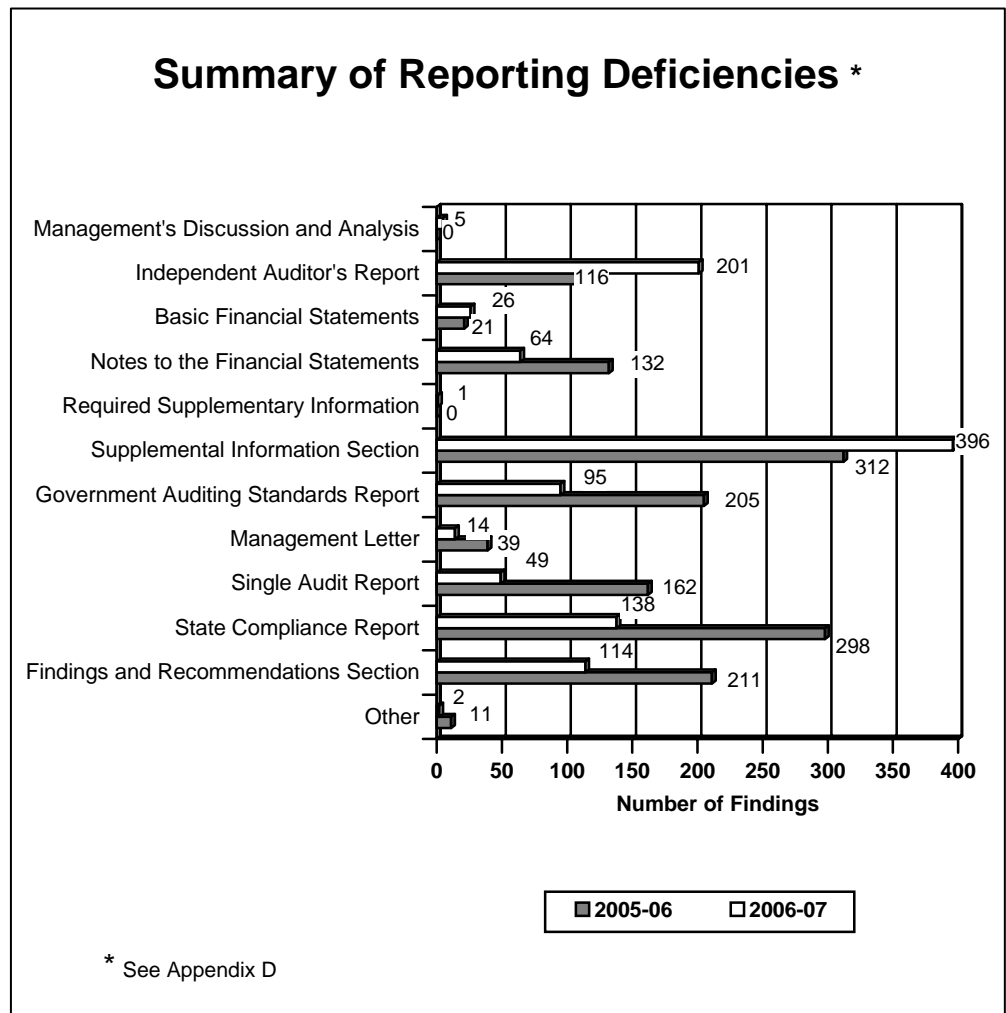


Reporting Deficiencies

Reporting deficiencies decreased

Upon initial review, the SCO certified 922 (67%) of the 1,366 audit reports submitted by independent CPAs for fiscal year 2006-07.

Figure 10



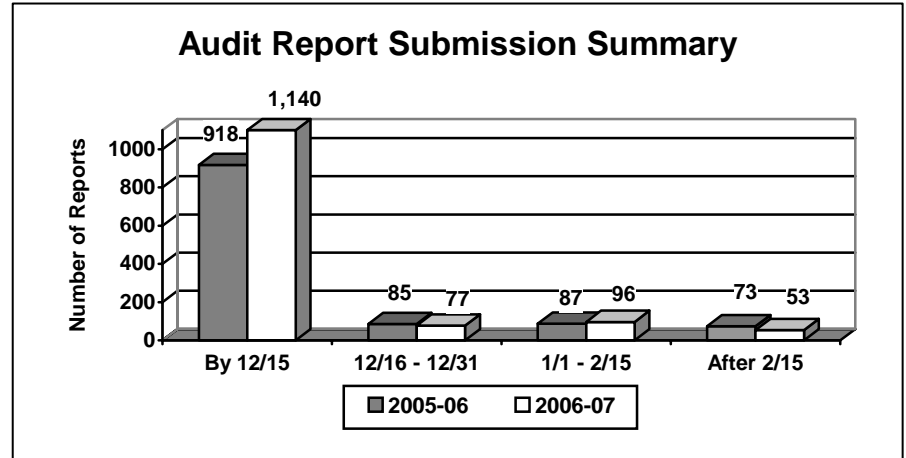
For fiscal year 2006-07, there were 1,173 reporting deficiencies, a decrease of 266 from 1,439 in the prior year (Figure 10). Although reporting deficiencies decreased, the number of rejected reports increased (see Figure 9). This is because the number of deficiencies per rejected audit report decreased.

Timely Submissions

Annual reports not submitted on time

Audit reports for the preceding fiscal year must be filed with the SCO, the California Department of Education, and the county superintendent of schools by December 15. Filing deadline extensions may be granted, but only under extraordinary circumstances.

Figure 11



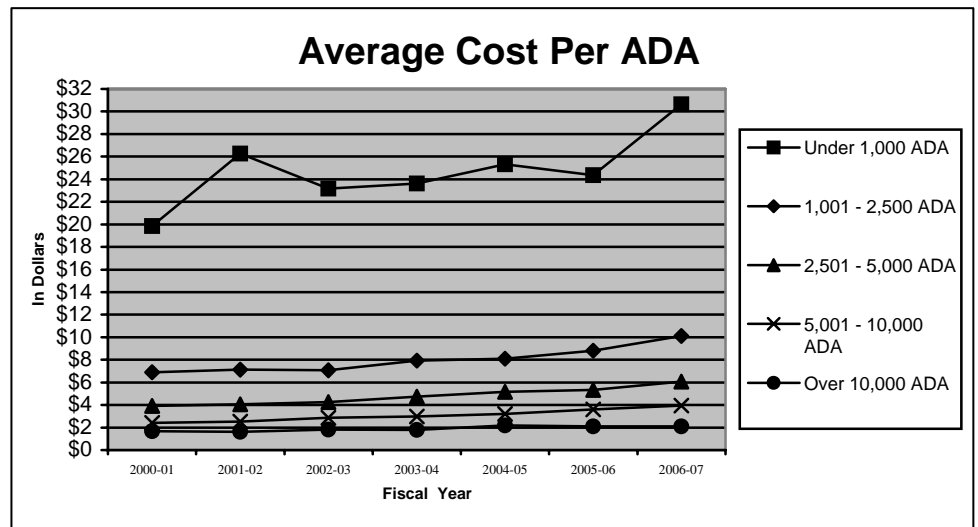
The number of annual school district, county office of education, and charter school audit reports submitted by the deadline increased from the previous year (Figure 11). Approximately 1,140, or 82.7%, of the 1,379 school district, county office of education, and charter school reports were received by the December 15 deadline. Thirteen reports remain outstanding.

Average Audit Cost per ADA

Average audit costs increased

The SCO maintains a database of information pertaining to audit contracts between LEAs and independent auditors. From that database, the SCO determined the total audit costs and cost per unit of ADA for LEAs' annual audits. Audit costs for the fiscal year 2006-07 audits totaled \$23.9 million, an increase of \$2.89 million, or 13.7%, over total audit costs of \$21.1 million for fiscal year 2005-06. The largest increase of 25.8% (\$6.28), was for LEAs with 1,000 ADA or less (Figure 12).

Figure 12



Quality Control Reviews

Under Chapter 1128, Statutes of 2002, the State Controller's effort in performing quality control reviews was expanded to include local education agencies that have received a negative budget/interim report certification and school districts that have a going concern issue, as determined by the county superintendent. Chapter 1128 also requires the SCO to publish a directory of CPAs whom it deems qualified to conduct audits of local education agencies. This directory is published by December 31 of each year.

Quality control reviews are necessary to ensure that the CPAs are adequately reviewing the local education agencies, are following generally accepted audit standards and government audit standards, and are including findings regarding financial stability and compliance with state and federal laws in their annual independent auditor's reports.

The general objective of the quality control reviews is to determine whether the independent auditors are conducting the annual financial audits of local education agencies in accordance with:

- Generally Accepted Government Auditing Standards (GAGAS);
- Generally Accepted Auditing Standards (GAAS);
- Standards and Procedures for Audits of California Local Educational Agencies (K-12 Audit Guide); and
- Office of Management and Budget (OMB) Circular A-133.

The SCO's opinion regarding the quality of the audits is classified in one of the following categories, based on whether the independent auditor performed the audit in accordance with auditing standards and state and federal requirements.

- If the audit was performed in accordance with the standards and requirements, the SCO's opinion would be that the independent auditor fully complied with auditing standards and state and federal requirements.
- If the audit was performed in accordance with the majority of the standards and requirements, the SCO's opinion would be that the independent auditor complied with the majority of auditing standards and state and federal requirements.
- If the audit was performed in accordance with some elements of the standards and requirements, but the majority of standards and requirements were not met, the SCO's opinion would be that the independent auditor complied with some elements of the standards and requirements, but that the majority of auditing standards and federal and state requirements were not met.

- If the audit was not performed in accordance with the standards and requirements, the SCO's opinion would be that the independent auditor did not comply with auditing standards and state and federal requirements. Such an opinion would result in a referral of the independent auditor to the California State Board of Accountancy.

The SCO issued two final reports during fiscal year 2007-08. Both of the independent auditors complied with some elements of the standards and requirements; however, the majority of auditing standards and federal and state requirements were not met.

Appendix A— Audit Report and Interim Report Disclosures of Impending Financial Problems

County	Full Disclosure in Auditor's Opinion	Full Disclosure in Financial Statement and Accompanying Notes	2006-07 Average Daily Attendance	2007-08 Interim Report		2006-07 Interim Report Second
School District/County Office				First	Second	
Alameda County:						
1. Alameda City Unified	No ¹	No ¹	10,556	P	Q	Q
2. Oakland Unified				Q	Q	Q
3. Piedmont City Unified	No	No	2,612	P	Q	P
4. Sunol Glen Unified	No	No	197	P	Q	P
Amador County:						
5. Amador County Office of Education	No	No	304	Q	Q	Q
6. Amador County Unified	No	Yes	4,301	Q	Q	Q
Butte County:						
7. Biggs Unified	No	No	627	Q	Q	N
8. Chico Unified	Yes	Yes	12,381	N	N	P
9. Durham Unified	No	Yes	1,098	P	Q	P
10. Oroville City Elementary	No	Yes	2,751	Q	Q	P
Contra Costa County:						
11. Martinez Unified	No	No	5,082	P	Q	P
12. Mt. Diablo Unified	No	No	35,673	P	Q	P
13. West Contra Costa Unified	No	No	29,687	P	Q	P
Del Norte County:						
14. Del Norte County Unified	No	No	4,366	P	Q ⁴	P
El Dorado County:						
15. Camino Union Elementary	No	Yes	438	P	Q ³	P
Fresno County:						
16. Golden Plains Unified	Yes	Yes ²	1,820	Q	Q	Q
17. Parlier Unified	No	Yes	3,300	P	Q	N
18. Raisin City Elementary	No	No	272	P	Q ³	P
19. Westside Elementary	No	No	243	P	Q	P
Glenn County:						
20. Willows Unified	¹	¹	¹	P	N ³	P
Humboldt County:						
21. Eureka Unified	No	Yes	5,329	Q	N	Q
22. Rohnerville Elementary	No	Yes	617	Q	Q	P
23. Scotia Union Elementary	No	No	220	Q	P	P
24. Southern Humboldt Joint Unified	No	Yes	775	Q	P	P
Imperial County:						
25. Brawley Union High	No	No	2,075	P	Q	P
26. Calexico Unified	No	Yes ²	9,315	Q	Q	P
Inyo County:						
27. Bishop Joint Union High	No	No	752	Q ³	P	P
28. Bishop Union Elementary	No	Yes	1,230	Q ³	P	P
Kern County:						
29. El Tejon Unified	No	No	1,246	Q ³	Q	P
30. Greenfield Union Elementary	No	No	7,960	P	Q	P
31. Lakeside Union Elementary	No	No	1,328	P	Q ³	P
32. Lost Hills Union Elementary	No	No	530	P	Q	P
33. Muroc Joint Unified	No	Yes ²	2,003	Q	Q	P

Appendix A (continued)

County School District/County Office	Full Disclosure in Auditor's Opinion	Full Disclosure in Financial Statement and Accompanying Notes	2006-07 Average Daily Attendance	2007-08 Interim Report		2006-07 Interim Report Second
				First	Second	
Lake County:						
34. Konocti Unified	No	Yes	2,890	P	Q ³	P
35. Lakeport Unified	No	Yes	1,616	P	Q	P
36. Upper Lake Union Elementary	No	No	550	P	Q	P
37. Upper Lake Union High	No	No	386	P	Q	P
Lassen County:						
38. Westwood Unified	Yes	Yes	330	P	Q	P
Los Angeles County:						
39. Antelope Valley Union High	No	No	24,265	P	Q	P
40. Castaic Union Elementary	No	No	3,318	P	Q	P
41. Centinela Valley Union High	Yes	Yes ²	8,322	P	N ³	P
42. Covina-Valley Unified	No	Yes	16,445	Q	P	P
43. El Monte City Elementary	No	Yes	10,322	P	Q	P
44. El Rancho Unified	No	No	12,137	P	N	P
45. Gorman Elementary	No	Yes	44	N	N ³	P
46. Hawthorne Elementary	No	No	8,987	P	Q	P
47. Las Virgenes Unified	No	No	11,505	P	Q	P
48. Los Angeles County Office of Education	No	No	20,396	P	Q	P
49. Los Angeles Unified				P	Q	P
50. Lowell Joint Elementary	No	No	3,026	P	Q	P
51. Monrovia Unified	No	No	6,770	P	Q	P
52. Paramount Unified	No	Yes	16,505	Q	Q	P
53. Pomona Unified	No	No	34,989	P	Q	P
54. Saugus Union Elementary	No	No	10,288	P	Q	P
55. South Whittier Elementary	No	Yes	3,930	P	Q	P
56. Whittier City Elementary	No	Yes	6,564	P	Q	P
Mendocino County:						
57. Anderson Valley Unified	No	No	531	P	Q	P
58. Mendocino Unified	No	No	547	P	Q	P
59. Potter Valley Community Unified	No	No	263	P	Q	P
60. Ukiah Unified	No	No	5,976	Q	Q	Q
61. Willits Unified	No	Yes	1,780	P	Q	P
Merced County:						
62. Atwater Elementary	No	No	4,524	P	Q	P
Monterey County:						
63. King City Joint Union High	Yes	Yes ²	2,231	N	N	P
64. King City Union Elementary	No	Yes	2,290	Q	N	P
65. Salinas Union High	No	Yes	15,720	P	Q	P
Orange County:						
66. Garden Grove	No	Yes	49,902	P	Q	P
Placer County:						
67. Auburn Union Elementary	No	No	2,255	P	Q	P
68. Colfax Elementary	No	No	440	P	Q	P
69. Eureka Union Elementary	No	Yes	3,891	P	Q	P
70. Placer Hills Union Elementary	No	Yes	1,146	P	Q	P
71. Placer Union High	No	Yes	5,417	P	Q	P
72. Rocklin Unified	No	No	9,394	P	Q	P
73. Western Placer Unified	No	No	5,310	P	Q	Q

Appendix A (continued)

County School District/County Office	Full Disclosure in Auditor's Opinion	Full Disclosure in Financial Statement and Accompanying Notes	2006-07 Average Daily Attendance	2007-08 Interim Report		2006-07 Interim Report Second
				First	Second	
Riverside County:						
74. Alvord Unified	No	Yes	18,744	P	Q	P
75. Moreno Valley Unified	No	Yes	35,037	P	Q	P
Sacramento County:						
76. Elk Grove Unified	No	No	59,557	P	Q	P
77. Natomas Unified	No	No	9,059	P	Q	P
78. Robla Elementary	No	No	1,911	P	Q	P
79. Sacramento City Unified	No	No	49,671	P	Q ³	P
80. San Juan Unified	No	No	48,061	P	Q	P
San Benito County:						
81. Aromas/San Juan Unified	Yes	Yes ²	1,232	N	N	P
San Bernardino County:						
82. Barstow Unified	No	Yes	6,509	P	Q	P
83. Hesperia Unified	No	No	19,997	P	Q	P
84. Lucerne Valley Unified	No	Yes	1,035	Q	Q ³	P
85. Needles Unified	No	No	7,908	P	Q	P
86. Rialto Unified	No	Yes	27,654	P	Q	P
87. Rim of the World Unified	No	No	4,952	P	Q	P
San Diego County:						
88. Jamul-Dulzura Union Elementary	No	No	1,390	P	Q	P
89. La Mesa-Spring Valley Elementary	No	Yes	12,797	P	Q	P
90. San Ysidro Elementary	No	Yes	4,941	P	Q	P
91. Vista Elementary	No	No	23,035	P	Q	P
San Joaquin County:						
92. Tracy Joint Unified	No	Yes	16,106	P	Q	P
San Luis Obispo County:						
93. Atascadero Unified	No	No	4,916	P	Q	P
94. Lucia Mar Unified	No	Yes	10,832	P	Q	P
95. Paso Robles Joint Unified	No	Yes	6,730	P	Q	P
96. San Miguel Joint Union Elementary	No	No	456	P	Q	P
97. Shandon Joint Unified	Yes	Yes ²	370	P	Q	P
Santa Barbara County:						
98. Cuyama Joint Unified	No	No	276	P	Q	P
99. Hope Elementary	No	Yes	1,223	P	Q	P
100. Santa Barbara School Districts	No	Yes ²	14,416	Q	N	P
Santa Clara County:						
101. Franklin-McKinley Elementary	No	Yes	9,397	P	Q	P
102. Mt. Pleasant Elementary	No	Yes	2,881	P	Q	P
103. Orchard Elementary	No	Yes	777	P	Q	P
Santa Cruz County:						
104. Pajaro Valley Unified	No	Yes	19,276	P	N	P
105. Santa Cruz City High	No	No	7,227	P	Q	P
Shasta County:						
106. Cascade Union Elementary	No	No	1,435	P	Q	P
107. Cottonwood Union Elementary	No	No	1,130	P	Q ³	P
108. Grant Elementary	No	Yes	576	Q	Q	P
109. Pacheco Union Elementary	No	No	675	P	Q	P

Appendix A (continued)

County	Full Disclosure in Auditor's Opinion	Full Disclosure in Financial Statement and Accompanying Notes	2006-07 Average Daily Attendance	2007-08 Interim Report		2006-07 Interim Report Second
School District/County Office						
Siskiyou County:						
110. McCloud Union Elementary	No	No	82	P	Q ³	P
111. Mt. Shasta Union Elementary	No	Yes ²	617	Q ³	P	P
112. Weed Union Elementary	No	No	337	Q ³	P	P
Solano County:						
113. Dixon Unified	Yes	Yes	3,916	N	N	P
114. Travis Unified	No	Yes	5,069	P	Q	P
115. Vallejo City Unified	¹	¹	¹	N	N	N
Sonoma County:						
116. Forestville Union Elementary	No	No	517	Q	Q	P
117. Healdsburg Unified	Yes	Yes ²	2,291	N	Q	N
118. Piner-Olivet Union Elementary	No	No	1,614	P	Q	P
Stanislaus County:						
119. Empire Union Elementary	No	Yes	3,425	P	Q	P
120. Hughson Unified	No	No	2,110	P	Q	P
121. Knights Ferry Elementary	Yes	Yes	128	Q	P	Q
122. La Grange Elementary	No	No	78	P	Q	P
123. Roberts Ferry Union Elementary	No	No	107	P	Q	P
124. Valley Home Joint Elementary	No	Yes	159	P	Q	P
Tulare County:						
125. Stone Corral Elementary	No	No	138	Q ³	P	P
Tuolumne County:						
126. Chinese Camp Elementary	No	No	12	P	Q ³	P
127. Curtis Creek Elementary	No	No	615	P	Q ³	P
128. Sonora Union High	No	Yes	1,540	P	Q	P
129. Twain Harte-Long Barn Union Elem.	No	No	416	Q	Q	Q
Yuba County:						
130. Wheatland Elementary	No	Yes ²	1,304	P	Q	P

Legend: P = Positive Q = Qualified N = Negative

¹ Annual audit report has not been submitted; therefore, the information was not available.

² Disclosed in the Schedule of Findings and Questioned Costs.

³ County office of education changed certification.

⁴ California Department of Education changed certification.

Appendix B— Local Education Agencies Filing Qualified or Negative Interim Reports

Analysis of Key Indicators for Financial Difficulties										
County	1 st /2 nd	Deficit	Inadequate	Declining	Mid-Year	Salary and	Management	Negative Fund	Charter	
School District/County Office	Certification	Spending	Reserves	Enrollment	Budget Adjustment	Benefit Issues	Turnover	Balance/ or Cash Flow Problems	School Issues	Other
Alameda County:										
1. Alameda City Unified	P/Q	✓	✓	✓	✓					
2. Oakland Unified	Q/Q	✓	✓	✓					✓	✓
3. Piedmont City Unified	P/Q	✓	✓	✓	✓					
4. Sunol Glen Unified	P/Q	✓	✓		✓	✓	✓			
Amador County:										
5. Amador County Office	Q/Q	✓		✓						
6. Amador County Unified	Q/Q	✓	✓	✓	✓					✓
Butte County:										
7. Biggs Unified	Q/Q		✓	✓	✓				✓	✓
8. Chico Unified	N/N	✓	✓	✓	✓			✓		✓
9. Durham Unified	P/Q		✓		✓	✓				
10. Oroville City Elementary	Q/Q	✓	✓	✓	✓	✓				✓
Contra Costa County:										
11. Martinez Unified	P/Q	✓	✓	✓	✓	✓				
12. Mt. Diablo Unified	P/Q	✓	✓	✓	✓	✓	✓			
13. West Contra Costa Unified	P/Q	✓	✓	✓	✓		✓		✓	✓
Del Norte County:										
14. Del Norte County Unified	P/Q			✓	✓	✓				✓
El Dorado County:										
15. Camino Union Elementary	P/Q	✓		✓	✓					
Fresno County:										
16. Golden Plains Unified	Q/Q	✓	✓	✓	✓	✓				
17. Parlier Unified	P/Q	✓	✓	✓	✓	✓			✓	
18. Raisin City Elementary	P/Q	✓	✓		✓	✓				
19. Westside Elementary	P/Q	✓	✓	✓	✓	✓				
Glenn County:										
20. Willows Unified	P/N	✓	✓	✓				✓		
Humboldt County:										
21. Eureka City Unified	Q/N	✓	✓	✓	✓	✓	✓			✓
22. Rohnerville Elementary	Q/Q	✓			✓	✓	✓			✓
23. Scotia Union Elementary	Q/P		✓					✓		✓
24. Southern Humboldt Joint Unified	Q/P	✓	✓			✓				

Appendix B (continued)

County	School District/County Office	Analysis of Key Indicators for Financial Difficulties									
		1 st /2 nd	Deficit	Inadequate	Declining	Mid-Year	Salary and	Management	Negative Fund	Charter	Other
		Certification	Spending	Reserves	Enrollment	Budget Adjustment	Benefit Issues	Turnover	Balance/ or Cash Flow Problems	School Issues	
Imperial County:											
	25. Brawley Union High	P/Q	✓	✓		✓	✓	✓			✓
	26. Calexico Unified	Q/Q		✓	✓		✓				✓
Inyo County:											
	27. Bishop Joint Union High	Q/P	✓	✓			✓				
	28. Bishop Union Elementary	Q/P	✓	✓			✓				
Kern County:											
	29. El Tejon Unified	Q/Q		✓	✓		✓			✓	✓
	30. Greenfield Union Elementary	P/Q	✓	✓							
	31. Lakeside Union Elementary	P/Q	✓		✓				✓		✓
	32. Lost Hills Union Elementary	P/Q	✓	✓							
	33. Muroc Joint Unified	Q/Q	✓	✓	✓				✓		
Lake County:											
	34. Konocti Unified	P/Q	✓	✓	✓	✓					✓
	35. Lakeport Unified	P/Q	✓	✓	✓	✓					
	36. Upper Lake Union Elementary	P/Q	✓	✓	✓	✓					✓
	37. Upper Lake Union High	P/Q	✓	✓	✓	✓					✓
Lassen County:											
	38. Westwood Unified	P/Q	✓	✓	✓		✓		✓		✓
Los Angeles County:											
	39. Antelope Valley Union High	P/Q	✓	✓	✓	✓					
	40. Castaic Union Elementary	P/Q	✓	✓	✓		✓				
	41. Centinela Valley Union High	P/N	✓	✓	✓		✓		✓		✓
	42. Covina-Valley Unified	Q/P	✓	✓	✓		✓				
	43. El Monte City Elementary	P/Q	✓		✓	✓					
	44. El Rancho Unified	P/N	✓	✓	✓	✓	✓				
	45. Gorman Elementary	N/N	✓	✓			✓		✓	✓	
	46. Hawthorne Elementary	P/Q	✓	✓	✓	✓					
	47. Las Virgenes Unified	P/Q	✓	✓	✓	✓					✓
	48. Los Angeles COE	P/Q	✓	✓			✓		✓		✓
	49. Los Angeles Unified	P/Q	✓	✓	✓	✓	✓	✓			
	50. Lowell Joint Elementary	P/Q	✓	✓	✓	✓					

Appendix B (continued)

County	School District/County Office	Analysis of Key Indicators for Financial Difficulties									
		1 st /2 nd Certification	Deficit Spending	Inadequate Reserves	Declining Enrollment	Mid-Year Budget Adjustment	Salary and Benefit Issues	Management Turnover	Negative Fund Balance/ or Cash Flow Problems	Charter School Issues	Other
Los Angeles County: (continued)											
51.	Monrovia Unified	P/Q	✓	✓	✓		✓				
52.	Paramount Unified	Q/Q	✓	✓	✓	✓	✓			✓	✓
53.	Pomona Unified	P/Q	✓	✓	✓	✓	✓				
54.	Saugus Union Elementary	P/Q	✓	✓	✓	✓					
55.	South Whittier Elementary	P/Q	✓	✓	✓	✓	✓				
56.	Whittier City Elementary	P/Q	✓	✓	✓	✓					
Mendocino County:											
57.	Anderson Valley Unified	P/Q	✓	✓	✓	✓	✓				✓
58.	Mendocino Unified	P/Q	✓	✓	✓	✓	✓				
59.	Potter Valley Community Unified	P/Q	✓	✓	✓	✓	✓				
60.	Ukiah Unified	Q/Q	✓	✓	✓	✓	✓	✓		✓	✓
61.	Willits Unified	P/Q	✓	✓	✓	✓	✓	✓		✓	✓
Merced County:											
62.	Atwater Elementary	P/Q	✓	✓	✓	✓	✓				
Monterey County:											
63.	King City Joint Union High	N/N	✓	✓							
64.	King City Union Elementary	Q/N	✓	✓	✓		✓				
65.	Salinas Union High	P/Q	✓	✓	✓	✓					✓
Orange County:											
66.	Garden Grove Unified	P/Q	✓	✓	✓	✓	✓				
Placer County:											
67.	Auburn Union Elementary	P/Q	✓	✓	✓	✓					
68.	Colfax Elementary	P/Q	✓	✓	✓			✓			
69.	Eureka Union Elementary	P/Q	✓	✓		✓	✓	✓			
70.	Placer Hills Union Elementary	P/Q	✓	✓			✓				✓
71.	Placer Union High	P/Q	✓	✓		✓	✓	✓			
72.	Rocklin Unified	P/Q	✓	✓		✓	✓			✓	
73.	Western Placer Unified	P/Q	✓	✓			✓	✓			✓
Riverside County:											
74.	Alvord Unified	P/Q	✓	✓		✓	✓	✓			✓
75.	Moreno Valley Unified	P/Q	✓	✓							

Appendix B (continued)

County	Analysis of Key Indicators for Financial Difficulties									
	1 st /2 nd Certification	Deficit Spending	Inadequate Reserves	Declining Enrollment	Mid-Year Budget Adjustment	Salary and Benefit Issues	Management Turnover	Negative Fund Balance/ or Cash Flow Problems	Charter School Issues	Other
Sacramento County:										
76. Elk Grove Unified	P/Q	✓	✓		✓					✓
77. Natomas Unified	P/Q	✓	✓		✓					
78. Robla Elementary	P/Q	✓	✓	✓	✓	✓	✓		✓	
79. Sacramento City Unified	P/Q	✓		✓	✓	✓				✓
80. San Juan Unified	P/Q	✓	✓	✓	✓	✓			✓	✓
San Benito County:										
81. Aromas-San Juan Unified	N/N	✓	✓		✓	✓		✓		✓
San Bernardino County:										
82. Barstow Unified	P/Q	✓	✓	✓	✓	✓				✓
83. Hesperia Unified	P/Q	✓	✓		✓	✓	✓		✓	
84. Lucerne Valley Unified	Q/Q	✓	✓	✓	✓	✓			✓	✓
85. Needles Unified	P/Q	✓	✓	✓	✓	✓				✓
86. Rialto Unified	P/Q	✓	✓	✓	✓	✓				✓
87. Rim of the World Unified	P/Q	✓	✓	✓	✓		✓			✓
San Diego County:										
88. Jamul-Dulzura Union Elem.	P/Q	✓	✓	✓	✓			✓	✓	✓
89. La Mesa-Spring Valley Elem.	P/Q	✓	✓	✓	✓					✓
90. San Ysidro Elementary	P/Q	✓	✓	✓	✓		✓			✓
91. Vista Unified	P/Q	✓	✓		✓	✓	✓			✓
San Joaquin County:										
92. Tracy Joint Unified	P/Q	✓	✓		✓					✓
San Luis Obispo County:										
93. Atascadero Unified	P/Q	✓	✓	✓	✓					
94. Lucia Mar Unified	P/Q	✓	✓	✓	✓		✓			
95. Paso Robles Joint Unified	P/Q	✓	✓		✓	✓	✓			
96. San Miguel Joint Union Elem.	P/Q	✓	✓		✓	✓				
97. Shandon Joint Unified	P/Q	✓	✓	✓	✓	✓	✓			
Santa Barbara County:										
98. Cuyama Joint Unified	P/Q	✓	✓							✓
99. Hope Elementary	P/Q	✓	✓		✓					✓
100. Santa Barbara School Districts	Q/N	✓	✓	✓		✓	✓			✓

Appendix B (continued)

County	School District/County Office	Analysis of Key Indicators for Financial Difficulties									
		1 st /2 nd Certification	Deficit Spending	Inadequate Reserves	Declining Enrollment	Mid-Year Budget Adjustment	Salary and Benefit Issues	Management Turnover	Negative Fund Balance/ or Cash Flow Problems	Charter School Issues	Other
Santa Clara County:											
101.	Franklin-McKinley Elementary	P/Q	✓	✓		✓				✓	✓
102.	Mt. Pleasant Elementary	P/Q	✓	✓		✓	✓				
103.	Orchard Elementary	P/Q	✓	✓		✓					
Santa Cruz County:											
104.	Pajaro Valley Unified	P/N	✓	✓					✓	✓	✓
105.	Santa Cruz City High	P/Q	✓	✓					✓		✓
Shasta County:											
106.	Cascade Union Elementary	P/Q	✓	✓	✓						✓
107.	Cottonwood Union Elementary	P/Q	✓	✓	✓		✓				✓
108.	Grant Elementary	Q/Q	✓	✓				✓			
109.	Pacheco Union Elementary	P/Q	✓	✓	✓						✓
Siskiyou:											
110.	McCloud Union Elementary	P/Q	✓	✓	✓	✓	✓				
111.	Mt. Shasta Union Elementary	Q/P	✓								
112.	Weed Union Elementary	Q/P	✓	✓			✓				
Solano County:											
113.	Dixon Unified	N/N	✓	✓	✓	✓	✓	✓	✓	✓	
114.	Travis Unified	P/Q	✓	✓		✓	✓				
115.	Vallejo City Unified	N/N			✓	✓		✓			✓
Sonoma County:											
116.	Forestville Union Elementary	Q/Q	✓	✓	✓				✓	✓	
117.	Healdsburg Unified	N/Q		✓	✓						✓
118.	Piner-Olivet Union Elem.	P/Q	✓	✓						✓	
Stanislaus County:											
119.	Empire Union Elementary	P/Q	✓	✓	✓	✓	✓	✓	✓		✓
120.	Hughson Unified	P/Q	✓	✓		✓	✓		✓		
121.	Knights Ferry Elementary	Q/P	✓	✓							
122.	La Grange Elementary	P/Q	✓	✓	✓	✓			✓	✓	
123.	Roberts Ferry Union Elem.	P/Q	✓		✓	✓					
124.	Valley Home Joint Elementary	P/Q	✓		✓	✓	✓		✓		
Tulare County:											
125.	Stone Corral Elementary	Q/P			✓				✓		

Appendix B (continued)

County <u>School District/County Office</u>	Analysis of Key Indicators for Financial Difficulties									
	<u>1st/2nd Certification</u>	<u>Deficit Spending</u>	<u>Inadequate Reserves</u>	<u>Declining Enrollment</u>	<u>Mid-Year Budget Adjustment</u>	<u>Salary and Benefit Issues</u>	<u>Management Turnover</u>	<u>Negative Fund Balance/or Cash Flow Problems</u>	<u>Charter School Issues</u>	<u>Other</u>
Tuolumne County:										
126. Chinese Camp Elementary	P/Q	✓		✓	✓	✓				✓
127. Curtis Creek Elementary	P/Q	✓	✓	✓	✓	✓	✓			
128. Sonora Union High	P/Q	✓	✓	✓			✓			✓
129. Twain Harte-Long Barn Union Elementary	Q/Q	✓	✓	✓		✓	✓			✓
Yuba County:										
130. Wheatland Elementary	P/Q	✓		✓		✓				✓

Legend: P=Positive Q=Qualified N=Negative

Appendix C— Summary of Audit Report Compliance Findings

<u>Program</u>	<u>Description of Problem</u>	<u>Number of Findings</u>
STATE		
Attendance Requirements	ADA overstated by 0-5 ADA	20
	ADA overstated by 10-20 ADA	1
	ADA overstated by 5-10 ADA	3
	ADA understated by 0-5 ADA	15
	ADA understated by 10-20 ADA	6
	ADA understated by 5-10 ADA	5
	ADA understated by more than 20 ADA	2
	Absences were claimed for apportionment	21
	Attendance accounting system not approved by CDE	2
	Attendance registers/scantrons not signed by teachers	19
	Attendance report did not reconcile to supporting documentation	15
	Attendance report inaccurate/incomplete	51
	Excused absences – problems with verification procedures/documentation	14
	Lack of documentation/records	8
	Other finding	13
	Teacher not authorized to instruct limited-English-proficient pupils	34
	Teacher providing instruction outside of credential subject	4
	Teacher(s) did not possess a valid certification document	3
	Excused/unexcused absences improperly recorded	1
	Minimum day requirements not met	1
	Kindergarten: retention forms are not maintained and/or properly approved	54
Adult Education	Attendance accounting deficiency	15
	Attendance report does not reconcile to supporting documentation	3
	Other finding	4
Independent Study	Attendance overstated	15
	Independent study contract did not include all required elements	22
	Independent study work samples not maintained	1
	Other finding	18
Community Day Schools	Attendance report inaccurate	7
Continuation Education	Attendance accounting deficiency	23
	Other finding	1
Regional Occupational Center/Program	Attendance accounting deficiency	6
	Attendance report did not reconcile to supporting documentation	1
Summer School	Attendance accounting deficiency	9
Ratios of Administrative Employees to Teachers	Ratio calculation was incorrect	2
Annual Instructional Minutes – Classroom Based	Instructional time requirements not met	1
California School Age Families Education (Cal-SAFE)	Cal-SAFE ADA overstated	12
	Financial report inaccurate/not complete	2

Appendix C (continued)

<u>Program</u>	<u>Description of Problem</u>	<u>Number of Findings</u>
STATE (continued)		
Child Development	Other finding	1
Class-Size Reduction	Lack of documentation/records	3
	Number of classes and pupils reported on Form J-7 CSR overstated	41
	Number of classes and pupils reported on Form J-7 CSR understated	47
	Other finding	7
	Teacher training not complete/not documented	1
Deferred Maintenance	Expenditures not allowable	5
	Other finding	1
Determination of Funding for Non-classroom-Based Instruction	Total reported expenditures for instruction and related services overstated	1
Excess Sick Leave	Excess sick leave was accrued, but not authorized by bargaining agreement or employment contract	3
Gann Limit	Appropriations limit calculation deficiency	4
Inventory of Equipment	Inventory of equipment not maintained	10
Instructional Time	Instructional time requirements not met	18
	Lack of documentation/records	3
	Other finding	7
Mode of Instruction	Average daily attendance not generated in compliance with requirements	1
Morgan-Hart Class-Size Reduction Program	Average pupil enrollment count not used	1
	Number of classes and pupils reported on Form J-9MH-A overstated	8
	Number of classes and pupils reported on Form J-9MH-A understated	10
	Other finding	4
Notification of Right To Elect CalSTRS Membership	CalSTRS membership election form not provided to newly-hired substitute teacher or part-time employee	50
Proposition 20 Lottery Funds	Expenditures not allowable	47
State Lottery Funds	Allowance not accounted for separately	1
School Accountability Report Card	District did not follow uniform complaint process	27
	School accountability report card not published	17
	Other finding	50
School Construction Funds	School District Bonds: Expenditures not allowable	1
	State School Facilities Funds: Expenditures not allowable	3
Instructional Materials	Adopted/nonadopted instructional materials requirements not followed	14
	Board resolution did not address sufficiency of textbooks/instructional materials	14
	Expenditures not allowable	25
	Notice of public hearing deficiency	15
	Other finding	5
	Public hearing on instructional materials not held or held after the required time period	33

Appendix C (continued)

<u>Program</u>	<u>Description of Problem</u>	<u>Number of Findings</u>
STATE (continued)		
Other State Program	Expenditures overstated	3
	Financial report inaccurate/not complete	4
	Other finding	<u>14</u>
TOTAL STATE FINDINGS		<u>933</u>
FEDERAL		
Bilingual Education	Allowable costs/cost principles	1
	Expenditures overstated	1
Child Nutrition	Activities allowed or unallowed	9
Cluster–National	Eligibility	7
School Lunch	Special tests and provisions	5
	Allowable costs/cost principles	1
	Lack of documentation/records	1
	Procurement and suspension and debarment	1
	Reporting	1
	Other finding	4
Federal Programs	Multi-funded positions not supported by time distribution records	4
	Noncompliance with requirements for activities allowed or unallowed	1
	Noncompliance with requirements for allowable costs/cost principles	10
	Noncompliance with requirements for period of availability of federal funds	1
	Other finding	3
	Special tests and provisions	4
Head Start	Allowable costs/cost principles	2
	Financial report/claim not filed/not filed on time	2
	Other finding	1
Migrant Education	Special tests and provisions	1
School Breakfast Program	Eligibility	1
Other Federal Program	Allowable costs/cost principles	2
	Eligibility	1
	Equipment and real property management	2
	Financial report/claim not filed/not filed on time	1
	Lack of documentation/records	1
	Other finding	3
	Procurement and suspension and debarment	1
	Reporting	2
	Special tests and provisions	1
	Subrecipient monitoring	1
Special Education	Special Education: allowable costs/cost principles	8
	Special Education: special tests and provisions	2

Appendix C (continued)

<u>Program</u>	<u>Description of Problem</u>	<u>Number of Findings</u>
STATE (continued)		
Title I—Grants to LEAs	Activities allowed or unallowed	2
	Allowable costs/cost principles	16
	Eligibility	2
	Lack of documentation/records	3
	Other finding	2
	Period of availability of federal funds	1
	Special tests and provisions	2
Title II, Improving Teacher Quality State Grants	Allowable costs/cost principles	5
TOTAL FEDERAL FINDINGS		<u>119</u>
TOTAL STATE AND FEDERAL FINDINGS		<u>1,052</u>

Appendix D— Summary of Audit Report Deficiencies

Description	Number of Findings	
	2005-06	2006-07
<u>Management's Discussion and Analysis</u>		
The Management's Discussion and Analysis was not included in the audit report.	0	5
<u>Independent Auditor's Report</u>		
The auditor's report did not identify the supplementary information, including Schedule of Expenditures of Federal Awards.	3	5
The auditor's report did not include an opinion on supplementary information.	1	43
The auditor's report did not reference auditing standards generally accepted in the USA and <i>Government Auditing Standards</i> .	12	28
The introductory paragraph of auditor's report did not clearly identify financial statements covered by auditor's opinion.	0	1
Reference to a separate report on compliance and on internal control over financial reporting was deficient.	94	108
Reference to a separate report on compliance and on internal control over financial reporting was not included.	4	14
The report does not reference the required supplementary information (RSI).	1	1
The report does not state that the auditor applied limited procedures to the RSI.	1	1
Subtotal	116	201
<u>Basic Financial Statements</u>		
Governmental entity: the Balance Sheet—Governmental Funds was not properly presented.	2	3
Governmental entity: the Reconciliation of Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to Statement of Activities was not properly presented.	5	2
Governmental entity: the Reconciliation of the Governmental Fund Balance Sheet to the Statement of Net Assets was not properly presented.	3	3
Governmental entity: the Statement of Activities was not properly presented.	3	2
Governmental entity: the Statement of Changes in Fiduciary Net Assets—Fiduciary Funds was not properly presented.	1	0
Governmental entity: the Statement of Fiduciary Net Assets—Fiduciary Funds was not properly presented.	0	1
Governmental entity: the Statement of Net Assets was not properly presented.	3	3
Governmental entity: the Statement of Revenues, Expenditures, and Changes in Fund Balances—Governmental Funds was not properly presented.	1	8
Non-profit entity: the Statement of Activities was not properly presented.	2	3
Non-profit entity: the Statement of Financial Position was not properly presented.	1	1
Subtotal	21	26

Appendix D (continued)

Description	Number of Findings	
	2005-06	2006-07
<u>Notes to the Financial Statements</u>		
All component units and/or joint ventures (JPAs) related to the entity were not identified.	1	1
Material prior period restatements or adjustments were not adequately disclosed.	1	3
The notes did not adequately describe criteria used in determining whether other entities should be considered component units of the reporting entity.	3	2
The notes did not include adequate disclosure of capital assets and depreciation.	6	13
The notes did not include adequate disclosure with respect to long-term debt.	29	28
The notes did not include all material items necessary for a fair presentation of the financial statements.	5	8
The pension obligations were not adequately disclosed.	0	58
The reserves were not appropriate, and/or their nature and purpose were not clear.	19	19
Subtotal	64	132
<u>Required Supplementary Information</u>		
The Schedule of Budgetary Comparison Data for General Fund and/or Major Special Revenue Funds was not included.	0	1
<u>Supplementary Information Section</u>		
A note stating that the LEA received funding for increasing instructional time was not included.	66	3
Available reserves are below minimum required and management's plans were not addressed, and/or going concern note was not included.	3	1
The Excess Sick Leave note was not included.	N/A	63
The Local Education Agency Organization Structure description was not included or was deficient.	N/A	238
The Reconciliation of Annual Financial and Budget Report with Audited Financial Statements was not included.	4	3
The Schedule of Average Daily Attendance was not included.	37	6
The Schedule of Charter Schools was not included or was deficient.	11	10
The Schedule of Expenditures of Federal Awards was deficient.	114	46
The Schedule of Expenditures of Federal Awards was not included.	0	3
The Schedule of Financial Trends and Analysis was not included; or schedule was deficient.	16	0
The Schedule of Instructional Time did not contain all the required information.	0	6
The Schedule of Instructional Time did not state whether the district complied with the instructional minutes and days provisions.	2	7
The Schedule of Instructional Time was not included.	54	1
The STRS early retirement note was not included, or disclosure was deficient.	5	9
Subtotal	312	396

Appendix D (continued)

Description	Number of Findings	
	2005-06	2006-07
<u>Government Auditing Standards (GAS) Report</u>		
The report did not state that audit was conducted in accordance with auditing standards generally accepted in the USA and <i>Government Auditing Standards</i> .	0	2
The Report on Compliance and Other Matters did not include a statement regarding test results.	1	6
The Report on Internal Control and Compliance (GAS) did not include a statement regarding legal restrictions on report distribution.	1	0
The Report on Internal Control and Compliance (GAS) did not reference the Independent Auditor's Report.	11	1
The Report on Internal Control Over Financial Reporting and on Compliance and Other Matters (GAS) was not included.	115	1
The Report on Internal Control Over Financial Reporting was deficient.	77	85
Subtotal	205	95
<u>Management letter</u>		
Management letter not included in audit report.	39	14
<u>Single Audit Report</u>		
The Report on Compliance With Requirements Applicable to Each Major Federal Program was deficient.	1	1
The Report on Internal Control Over Compliance was deficient.	160	42
The Report on Major Program Compliance and on Internal Control Over Compliance (OMB Circular A-133) was not included.	1	5
The Report on Major Program Compliance and on Internal Control Over Compliance did not include a statement regarding legal restrictions on report distribution.	0	1
Subtotal	162	49
<u>State Compliance Report</u>		
The Auditor's Report on State Compliance did not include a statement regarding legal restrictions on report distribution.	8	5
The Auditor's Report on State Compliance was deficient.	48	86
The Auditor's Report on State Compliance was not included.	55	0
The Auditor's Report on State Compliance cited the incorrect reference for the K-12 audit guide.	187	47
Subtotal	298	138

Appendix D (continued)

Description	Number of Findings	
	2005-06	2006-07
<u>Findings and Recommendation Section</u>		
The audit finding was not coded with the correct five-digit number.	11	19
Auditee's corrective action plan to eliminate noncompliance was not included.	3	3
Federal Program Finding(s): noncompliance was reported; however, the finding(s) did not include sufficient information.	0	3
Federal Program Finding(s): questioned costs and/or how they were calculated not included.	0	4
The Schedule of Findings and Questioned Costs was not included.	74	3
The Schedule of Prior Audit Findings was not included.	86	3
State Program Finding(s): financial impact not quantified in terms of dollars or ADA.	22	44
State Program Finding(s): noncompliance was reported; however, the finding(s) did not include sufficient information.	4	33
Sufficient information for judging the prevalence and consequences of noncompliance was not included.	3	2
The Schedule of Instructional Time indicated noncompliance with the requirements, but the finding was not included in the report.	4	0
Questioned or unsupported costs material to the financial statements were not properly disclosed.	4	0
Subtotal	211	114
<u>Other</u>		
Auditor's reports did not include a manual or printed signature of the auditor's firm and date of the report.	11	2
Total number of findings	1,439	1,173

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